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14 June 2016

Performance Audit Report of Maldives Road Development Corporation



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AUDITOR GENERAL'S OFFICE

Contents

SUMMARY AND CONCLUSION..... 3

KEY FINDINGS..... 4

CONCLUSION ON VALUE FOR MONEY 6

RECOMMENDATIONS 6

PART 1: INTRODUCTION 9

 The main stages of development..... 9

 Scope and methodology of the AGO examination 13

PART 2: REVIEW OF THE RESPONSIBILITIES OF THE BOARD AND ITS EFFECTIVENESS IN ACHIEVING THE OBJECTIVES 14

 Carrying activities outside the Corporations mandate 14

 Board Members do not attend the board meetings as per the Article of Association 15

 Audit Committee does not function effectively 15

 Lack of short term and long term plan..... 15

 Financial targets not set and reviewed by the board 16

PART 3: ECONOMY, EFFICIENCY AND EFFECTIVENESS OF THE PRODUCTION PROCESS.. 20

 Internal targets or benchmarks are not set 22

 Material usage not monitored and damaged products are not recorded..... 22

 Raw materials not maintained securely 22

PART 4: ECONOMY, EFFICIENCY AND EFFECTIVENESS OF PROJECT MANAGEMENT..... 24

 Detail Assessment not done before initiating the project..... 24

 Lack of Proper Planning 25

 Lack of a project monitoring process..... 26

 Project Progress reports were incomplete and reports were not prepared on a regular basis 26

 Time variation in completing the projects 28

 Variation in planed and actual cost..... 33

 Actual Cost of the Project were not maintained adequately 34

 Inadequate use of Assets 36

Public not satisfied with the design and quality of some of the roads developed.....	38
Outstanding receivable of MVR 7,276,570 for more than a year	46
Appendix 1: Methodology	48

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ



AUDITOR GENERAL'S OFFICE
Male', Republic of Maldives

SUMMARY AND CONCLUSION

1. In 24th August 2010, under a Presidential decree (ref: 2010-641) Maldives Road Development Corporation Limited (MRDC) was established as a manufacturing company with the aim of promoting the construction of rigid and flexible pavements for roads, with construction materials, reinforced earth and earthwork. MRDC is a state owned Corporation with 100% shares owned by the Government of Maldives
2. The main objective of MRDC is to provide an efficient and safe road infrastructure for the country. Principal activities carried out by the Corporation include construction of roads, trading of building bricks, contracting activities and maintenance work of roads.
3. The Corporation is directed by a Board of five members, who are appointed and terminated by the government for a term of one year. And the Chairman of the Corporation is appointed and terminated by the President.
4. To execute road projects in the islands, MRDC have established site offices in the islands. There are eight site offices located in eight different islands. These sites are located in Th.Vilufushi, Gn.Fuvahmulah, Dh.Kudahuvadhoo, S.Hithadhoo, S.Hulhumeedhoo, Hdh.Kulhudhufushi, Ga.Villingilli, Gdh.Thinadhoo.
5. MRDC is governed by the Public Finance Act (No 3/2006) and also adheres to the Public Finance Regulation issued by Ministry of Finance and Treasury. Apart from this, in its general operations and administration, MRDC follows the Corporate Governance Code (Capital Market Development Authority), policies and norms established within the Corporation.
6. The financial data (Figure 3) of the Corporation shows that the financial performance of the Corporation for the years 2012-2014 has not been strong. Although the Corporation has increased its income between 2012 and 2014, the Corporation has failed to control its cost of sales and other expenses. This has resulted in gradual increase in gross loss (Figure 6) and net loss (Figure 6) for the period 2012-2014. Furthermore, the financial data (Figure 4) of the Corporation shows that the financial position of the Corporation is volatile. The Corporation could be at risk of declining liquidity as trade receivables and trade payables have increased rapidly through the years 2012-2014.



7. The audit has examined how well MRDC achieves its aims and objectives by reviewing the responsibilities of the board and its aim in achieving the Corporation's objectives, examining the economy efficiency and effectiveness of sales and production process and examining the economy, efficiency and effectiveness of the projects conducted.
8. Our audit was mainly focused on the activities conducted by the Head Office. However, as some of these activities are conducted in other islands, to obtain sufficient and appropriate audit evidence we have visited site offices in S.Hithadhoo, S.Feydhoo and S.Hulhumeedhoo.

KEY FINDINGS

REVIEW OF THE RESPONSIBILITIES OF THE BOARD AND ITS EFFECTIVENESS IN ACHIEVING THE COMPANIES OBJECTIVES

9. MRDC is mandated to provide an efficient and safe road infrastructure for the country and their principal activities include construction of roads, trading of building bricks, contracting activities and maintenance work of roads. However, we observed that MRDC has carried out activities outside their mandate.
10. We observed that MRDC have failed to follow some of the mandatory tasks of the Corporate Governance Code. This includes the absence of some of the board member to more than three board meetings without a reasonable reason. And the audit committee of the Corporation not functioning effectively.
11. MRDC has not prepared a strategic plan (long term plan) and operational plan (short-term plan) and as a result, we were unable to examine the extent to which the Corporation have achieved its aims and objectives.
12. The Board does not prepare or discuss financial analysis when board decisions are made and when we analysed the financial performance and position of the Corporation, we observed that the financial performance and position of the Corporation were in such a critical state that it calls into question whether the Corporation would continue as a going concern in the future.

ECONOMY, EFFICIENCY AND EFFECTIVENESS OF SALES AND PRODUCTION PROCESS

13. There is no documentary evidence that MRDC have set daily, monthly or yearly production targets or other internal benchmarks.
14. We observed that in Thilafushi site the materials issued from Thilafushi store to Thilafushi production site were not recorded and there was no segregation of duties in material usage and monitoring process. Furthermore, items damaged during handling and transportation was not accounted for.

15. We observed that raw materials were not securely maintained in Thilafushi site. A large number of cement bags were lying around in the production area that could be accessed by anybody. In addition, we observed that there was lack of segregation of duties in the process of requisitioning and issuing materials at MRDC Head Office, as in some cases the person who requested the raw materials had authorised the issue of the materials requested.

ECONOMY, EFFICIENCY AND EFFECTIVENESS OF THE PROJECTS CONDUCTED

16. Projects were initialized without preparing a detail assessment to determine the viability, cost effectiveness, resource availability, procurement options and likely risk of the project.
17. The Corporation had not prepared a proper plan for some of the projects that were conducted. We also found that there were no written guidelines on how the plan should be prepared.
18. We observed that the projects conducted by MRDC were not being properly managed and monitored. For some of the projects, project progress reports were not being prepared while for others the reports were incomplete. And fundamental details required to be included in the reports were missing in the reports prepared in respect of some of these projects.
19. We observed that there was a huge variation between the actual project completion time and the planned time to complete the project. From the year 2011-2014, 92% of the projects were not completed as per the planned time.
20. We identified that there were variances between the actual project cost and the planned project cost. These variances were due to the additional works carried out by the Corporation.
21. We observed that assets that were acquired for the purpose of carrying out projects had been mostly used for other purposes such as sand excavation and trade or in the waste management project carried out in Addu city. Until 2014, MRDC had not maintained a log on how these vehicles were utilised. Therefore, we were unable to verify whether the vehicles were used for official or personal purposes.
22. The mandate of MRDC includes only the development of roads and the maintenance of roads does not come under the Corporation's jurisdiction. Due to the limitation in the Corporation's mandate and due to the financial incapability of the Corporation, MRDC was unable to attend to the request sent by Addu City council to repair some of the roads in Addu City; as a result, there was public protest near the premises of Addu City Council secretariat.
23. The survey conducted by the auditors, shows that the general public of the Addu City was not satisfied with the design and quality of some of the roads developed by the Corporation.
24. Receivables aging report as at 31 July 2015 shows that MVR 17,896,610 of receivables were due more than 90 days; out of this amount, MVR 7,276,570 represented receivables due more than one year. Furthermore, we identified that most of these receivables were due from government



institutions. MRDC has taken action to recover the receivables by sending reminder letters to the debtors.

CONCLUSION ON VALUE FOR MONEY

25. We conclude that the main two activities of the Corporation were not managed efficiently and effectively. The production process was not efficient as there were no measures to calculate the efficiency of the process. Moreover, adequate records were not maintained and adequate controls were not implemented within the process; we were unable to check whether the Corporation was efficient in meeting customers demand.
26. Furthermore, we conclude that the projects were initiated without a detailed assessment and a proper plan; project time and budget were often revised, resulting in significant delays and cost overruns. The projects were not monitored in an efficient and effective manner. With regard to the quality of the roads we conclude that the general public is not satisfied with some of the roads that were developed by the Corporation.
27. In addition, the board of the Corporation was not functioning effectively in achieving the objectives of the organisation. The board had not prepared long term and short term plans; in addition, the board had not discussed or reviewed any financial statistics of the Corporation. In overall we conclude that the Corporation was not managed efficiently and effectively.
28. To achieve value for money in its work and improve the performance of the Corporation, MRDC should review and discuss financial analysis in the board meetings and consider the results of the financial analysis when making decisions. The Corporation should also prepare short-term and long-term plans to direct the Corporation to achieve its main objectives.

RECOMMENDATIONS

29. **MRDC should perform activities that are within their mandate.** In order to achieve the aim and objectives and enhance the performance of the Corporation, MRDC should focus on the activities that are within the mandate of the Corporation. If the Corporation intends to carry out activities outside its mandate the Corporation should bring the relevant changes to the mandate by getting approval from the relevant authorities.
30. **MRDC should develop internal guidelines to govern the Corporation. If the Corporation uses the CMDA Corporate Governance Code, the Corporation should comply to it.** . To effectively manage the Corporation, it is important that MRDC has an effective audit committee.
31. **The Board should prepare and review long term and short term plans. The Corporation should also set targets of profitability at corporate level and project level.** Strategic plan (long term plan) and operational plan (short term plan) will help the board in achieving the objective effectively. In corporate level the Corporation should set a profit or keep losses at an agreed level or the Corporation should return to profit by a set date in the future. At project level



Corporation should ensure that all projects at least make a positive contribution to fixed cost or a target rate of return and also the Corporation should use external finance such as grant and loans from the government.

32. **The Board should consider financial data when decisions are made.** The board should review and analyse the financial data's (e.g. profitability, liquidity and debt ratios) when board decisions are made. Furthermore, the senior management should discuss on how the financial performance and financial position of the Corporation could be enhanced to sustain in future.
33. **Daily targets should be set for sales and productions of pavement and masonry bricks.** The Corporation should also monitor whether this targets are being achieved.
34. **MRDC should maintain its records adequately and should implement adequate controls within the process.** The Corporation should maintain the records of material usage and damage products. Also the Corporation should establish adequate controls within, handling, requesting and monitoring of materials.
35. **MRDC should maintain raw materials and finished goods securely.** Raw materials and finished goods should be kept securely and only authorised people should be accessed to the site. Also the Corporation should conduct a physical count of the materials on a regular basis.
36. **Projects should be initialized after doing a detailed assessment of the viability of the project and a proper plan should be prepared for each of the project.** MRDC should prepare a detailed assessment for each project before the project is initialized and a plan should be prepared for each project and this plan should be used to monitor the time, cost and quality of the project.
37. **MRDC should strengthen its project management and monitoring process.** Daily Reports and Project Progress reports should be prepared on a regular basis.
38. **MRDC should take proactive steps to reduce time and cost overruns by regularly monitoring the project.** The Corporation should give proper guidelines and trainings to the staff on how the projects should be monitored.
39. **MRDC should implement procedures to maintain and use its assets adequately.** An asset register should be maintained as per the PFR and when assets are moved from one place to another proper documentation should be maintained and asset should be used effectively for the purpose to which it was purchased. An asset log should be maintained in the site office to monitor whether assets are used for the intended purpose.
40. **To develop safe and quality roads it is important that MRDC to be involved in the designing, executing and maintenance process of the roads. And to give a quality service to the public it is important for the Corporation to implement mechanisms to identify the issues to the general public regarding roads.** To develop and maintain safe and quality roads MRDC should have discussion with the relevant authorities to amend the Corporation's mandate. MRDC should



provide their services in a level that the majority of the public are satisfied with the quality of the roads that are developed by the Corporation. Furthermore, MRDC should implement mechanisms to identify the difficulties that are faced by the public and attend the issues within a reasonable time.

41. **MRDC should strengthen its procedures on collecting outstanding receivables.** Other than verbally and sending letters, the Corporation should take other action against the debtors who have long outstanding debts.

PART 1: INTRODUCTION

1.1 Maldives Road Development Corporation Limited (MRDC) was established on 24th August 2010 under a Presidential decree (ref: 2010-641). It was established as a manufacturing company with the aim of promoting the construction of rigid and flexible pavements for roads, with construction materials, reinforced earth and earthwork. MRDC is a state owned Corporation with 100% shares owned by the Government of Maldives.

The main stages of development

1.2 The origins of MRDC lie in the Road Construction Unit of Male' Municipality which was subsequently renamed the Road Construction Section of Male' Municipality (RCSMM). MRDC was formed with the aim to take over responsibilities held by RCSMM and hence, the assets were transferred to MRDC.

1.3 The development of roads in Maldives began in 1984, and the construction of all roads in Male', the capital city was completed on 19th September 2002 under the Road Development Project of Male' which was funded by the Danish Government.

1.4 MRDC have established site offices in the islands, to develop the roads of the islands. There are eight site offices located in eight different islands. Figure 1 show the date on which the site offices were opened.

Figure 1: Site Offices and the established date

Site Name	Site office opened date
Hulhumeedhoo Site Office	08 th May 2013
Hithadhoo Site Office	08 th May 2013
Thinadhoo Site Office	08 th May 2013
Fuvahmulah Site Office	08 th May 2013
Kulhudhufushi Site Office	23 rd January 2011
Vilufushi Site Office	27 th May 2013
Kudahuvadhoos Site Office	25 th June 2013
Villigili Site Office	8 th January 2014

1.5 Production and trading of building bricks is one of the primary activities of the Corporation. The Corporation produces different types of paving and masonry blocks. This activity began during the time of Road Construction Unit. To develop the production, process the Corporation have set up factories in Male' Head Office and Thilafushi Island. Building block production is carried out in

Male' Head Office, whereas pre-casted items which are needed for the projects and road repair is produced in Thilafushi factory.

- 1.6 In 31st August 2010, the government of Maldives agreed to buy 2,000,000 shares of MRDC on a value of MVR 100 per shares, which brings the total value of the share to MVR 200,000,000. Figure 2 shows the capital granted to MRDC by the government for the years 2010-2015.

Figure 2: Share Capital from the Government

Year	2010	2013	2014	2015	Total
Capital from government	6,000,000	20,020,106	62,146,760	77,206,748	165,373,614

- 1.7 The financial audit report of the Corporation was published for the years 2012, 2013 and 2014.
- 1.8 Figure 3 illustrates the net income and net loss of the Corporation from 2012 - 2014. And Figure 4, shows a summary of the Balance sheet for the year 2012, 2013 and 2014. The figures for 2012, 2013 and 2014 are taken from the audited financial statement.

Figure 3: Income and net profits 2012-2014

Details	2012	2013	2014
Income	20,805,062	37,800,947	72,551,397
Cost of Sales	(12,700,447)	(50,659,875)	(102,226,359)
Gross profit / (loss)	8,104,615	(12,858,928)	(29,674,962)
Total Expenses	(10,503,843)	(11,655,905)	(23,649,814)
Net profit / (loss)	(2,399,229)	(24,514,833)	(53,324,777)

- 1.9 It is realized from the Figure 3 that the net income was showing increasing trend during 2012-2014 for the Corporation. Although the Corporation was successful in increasing its income, it failed to control cost of sales. As a result, it shows an increasing trend of cost of sales from 2012-2014, which have resulted in rapid increase in gross loss to MVR29,674,962 in 2014 from MVR12,858,928 in 2013; other expenses of the Corporation have also increased during the period 2012-2014. Therefore, the financial statements show a gradual increase in net loss from MVR 2,399,229 in 2012 to MVR 24,514,833 in 2013 and MVR53,324,777 in 2014.

Figure 4: Summary of Balance Sheet

Details	2012 MVR	2013 MVR	2014 MVR
Non-Current Assets	11,981,454	11,384,159	11,412,470
Inventories	6,735,389	14,721,149	6,364,391
Trade and other receivables	4,130,205	9,932,564	¹ 140,259,378
Cash and cash equivalents	358,197	337,728	24,453,002
Total assets	23,205,245	36,375,600	182,489,240
Trade and other payables	11,293,098	28,886,774	² 164,439,473
Total equity	11,912,147	7,488,826	18,049,767
Total Equity and liabilities	23,205,245	36,375,600	182,489,240

1.10 Figure 4 reveals that the non-current assets of the Corporation remained fairly stable at MVR11,981,454 in 2012, MVR11,384,159 in 2013 and MVR11,412,470 in 2014. The figure also shows that in comparison to 2012 inventories increased to MVR 14,721,149 in 2013 while it decreased to MVR 6,364,391 in 2014. Trade receivables increased from MVR 9,932,564 in 2013 to MVR 140,259,378 in 2014. Cash and cash equivalents fell in 2013 while recording an increase in 2014. Trade payables and other payables rose from MVR 28,886,774 in 2013 to MVR 164,439,473 in 2014.

1.11 Figure 5 states the key terms mentioned in this report.

¹ **Trade and other receivables for 2014** includes Trade receivables MVR3,768,724, Receivables from related parties MVR39,298,896, Provisions for doubtful debts (MVR2,858,382), Other receivables MVR15,660,443 and Advance paid to supplier MVR84,389,698.

² **Trade payable and other payables for 2014** includes Trade payables MVR24,082,043, Amount due to related party MVR8,374,042, Accrued expense MVR8,176,503, Other payables MVR842,306 and Advance from customers MVR122,964,588.

Figure 5: key terms

Profitability Ratio	<ul style="list-style-type: none"> Profitability ratio measures a company's performance. Profitability is the capacity to make a profit, and a profit what is left over from income earned after deducting all costs and expenses related earning the income
Gross Profit Margin	<ul style="list-style-type: none"> Gross profit margin is a profitability ratio that measures how much of revenue is left after paying cost of goods sold (COGS).
Net Profit Margin	<ul style="list-style-type: none"> Net profit margin is the percentage of revenue left after expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total sales.
Receivables Collection Period	<ul style="list-style-type: none"> Receivables collection period indicates the time taken to collect trade debts.
Payable Period	<ul style="list-style-type: none"> Payable period is an efficiency ratio that measures the number of days a company takes to pay its suppliers.
Liquidity Ratios	<ul style="list-style-type: none"> Liquidity ratios are used to determine a company's ability to pay off its short debt obligations.
Acid -test Ratio	<ul style="list-style-type: none"> Acid-test Ratio measures short term liquidity and position of the company by weighing current assets of the company against current liabilities.
Current Ratio	<ul style="list-style-type: none"> Current ratio is a liquidity and efficiency ratio that measures a company's ability to pay off its short-term liabilities with its current assets.
Turnover Ratio	<ul style="list-style-type: none"> Turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for the period.
Quick Books	<ul style="list-style-type: none"> Quick books is an accounting software used by small and medium sized businesses. It offers on-premises accounting applications as well as cloud based versions that accept business payments, manage and pay bills and pay roll functions.
Nomination Committee	<ul style="list-style-type: none"> Nomination committee make recommendations to the board and to the shareholders on all board appointments after evaluating the skills, knowledge and experience of the directors whose candidacy are being considered for the board position.
Remuneration Committee	<ul style="list-style-type: none"> Remuneration committee recommend remuneration packages for each director and the CEO.
Audit Committee	<ul style="list-style-type: none"> Audit committee reviews internal and external audit functions

Scope and methodology of the AGO examination

1.12 The audit examined how well MRDC have achieved its aims and objectives. The audit assessed performance against five main criteria:

- Board responsibilities are discharged effectively in compliance with board guidelines
- How far board reviews financial data, short-term and long-term plans when board decisions are made.
- Effectiveness of the board functions in achieving the aims and objectives of the Corporation
- Efficiency and effectiveness of the production and sales process and the extent to which economies have been achieved
- Economy, efficiency and effectiveness of the projects conducted by MRDC

1.13 The audit was conducted based on the ISSAI (International Standards of Supreme Audit Institutions) for Performance Audit. The audit examined:

- Review of the responsibilities of the board and its effectiveness in achieving the objectives (Part 2) – Whether board responsibilities are effectively discharged and the board functions are effective in achieving the main objectives of the company.
- Economy, efficiency and effectiveness of sales and production process (Part 3) – Whether production is carried out economically, the efficiency of the production process and to what extent the objectives of the function are achieved.
- Economy, efficiency and effectiveness of the projects conducted (Part 4) – Whether economic viability of the projects are considered when projects are initialized, efficiency of the project management and effectiveness of the project based on the time, budget and quality.
- The audit included an examination of the information and documents collected from Maldives Road Development Corporation, MRDC Addu Site Office, Addu City Council and general public. Information was acquired through inspections, analysis and inquiries with the relevant parties.

PART 2: REVIEW OF THE RESPONSIBILITIES OF THE BOARD AND ITS EFFECTIVENESS IN ACHIEVING THE OBJECTIVES

- 2.1 To direct and manage the Corporation, MRDC has implemented the Code of Corporate Governance enacted by the Capital Market Development Authority (CMDA).
- 2.2 The Corporation consists of five board members with three non-executive directors and three executive directors who are appointed and terminated by the Government. The Board is headed by a Chairman who is appointed and terminated by the President
- 2.3 This part reviews whether the responsibilities of the board have been discharged effectively and the effectiveness of the board function in achieving the Corporation's objectives. We examined the main activities needed to meet this objective as follows:
 - The guidelines followed by the board to discharge its responsibilities effectively.
 - The effectiveness of the board function in achieving the objectives
 - Long term and short term plans prepared by the board
 - Board reviews on financial targets

Carrying activities outside the Corporations mandate

- 2.4 MRDC is mandated to provide an efficient and safe road infrastructure for the country and the principal activities that they had carried out include construction of roads, trading of building bricks, contracting activities and maintenance work of roads. However, it has come to our attention that MRDC has carried out activities outside their mandate. This includes sand excavation and trading, construction of futsal grounds and waste management.
- 2.5 During our visit to MRDC Addu Site Office we observed that sand excavation and delivery was carried out in the site office. Sand is excavated and delivered upon the order by Addu city council where customers make payments directly to Addu City Council. After delivering the sand to customers MRDC Addu site office send invoices to Addu City Council and City Council make payments to MRDC head office. However, sand excavation and delivering is not included in the mandate of MRDC.
- 2.6 Under an agreement between Ministry of Youth and Sports and MRDC, in the year 2014-2015, MRDC has built eight futsal grounds in eight different islands. Building futsal ground is not included in the mandate of the Corporation and it was informed by the management that some of the work has been handed over to MRDC on an ad-hoc basis by the government. And building futsal ground is one of the ad-hoc projects that have been handed over to MRDC.
- 2.7 MRDC Addu site has taken the responsibility of waste management process in the four connected islands (Hithadhoo Maradhoo Maradhoofeydhoo and Feydhoo) in Addu City under an understanding between MRDC and Ministry of Environment and Energy. As per the understanding, MRDC has the responsibility to collect waste and cover all the islands once a

week and the Ministry has to make a monthly payment of MVR 695,088 to MRDC. Similar to the sand excavation and developing futsal grounds, waste management process is also not included in the Corporation's mandate.

- 2.8 The Corporation has generated some income from these activities. However, the main sources of income of the Corporation are road development and production of bricks. Handling activities outside the mandate of the Corporations could hinder the efforts made by the Corporation to achieve its primary aims and objectives.

Board Members do not attend the board meetings as per the Article of Association

- 2.9 MRDC follows CMDA Corporate Governance Code as the Board Guideline. Corporate Governance Code states that in order to ensure that the Board is effective; any quorum for Board meetings must comprise a majority of non-executive or independent directors. Articles of Association of MRDC states that members should not miss more than three board meetings without a reasonable reason. However, we observed that there were members who missed more than three meetings and a reasonable reason for their absence was not provided.

Audit Committee does not function effectively

- 2.10 The role and responsibilities of the audit committee stated in the Corporate Governance Code includes:

- to review effectiveness of company's internal risk controls and risk management systems;
- to monitor the integrity of annual and interim financial statements of the company;
- to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly;
- to review the internal and external audit functions; and
- to evaluate the independence and effectiveness of the work of the external auditors.

- 2.11 Furthermore, the Corporate Governance Code states that the Audit Committee should meet at least once every quarter to monitor internal and external audits, with one meeting necessary before finalisation of annual account. However, Audit Committee of MRDC does not function effectively as the committee have not performed any of the roles or responsibilities stated in the Corporate Governance code. Also the effectiveness of the committee is questionable as the committee held only one meeting and minutes of the meeting was not approved.

Lack of short term and long term plan

- 2.12 According to the Corporate Governance Code, the board is collectively responsible for promoting the success of the Corporation for directing and supervising the Corporation's affairs.

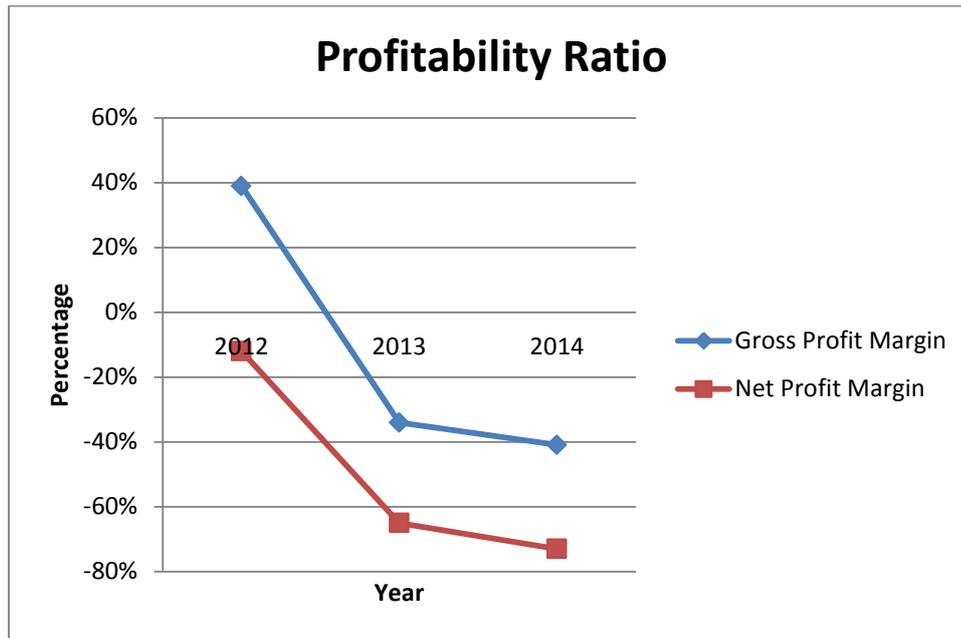


In order to achieve the aims and objectives of the Corporation, it is important for the board to prepare strategic plans (long term plan) and operational plan (short term plans). However, the board of MRDC has not prepared a long term or a short term plan, as a result the audit was unable to examine the extent to which the Corporation have achieved its aims and objectives. Furthermore, the management audit conducted on July 2014 has recommended the Corporation to prepare a strategic plan. But the Corporation have not prepared a strategic plan till the audit period (January 2016).

Financial targets not set and reviewed by the board

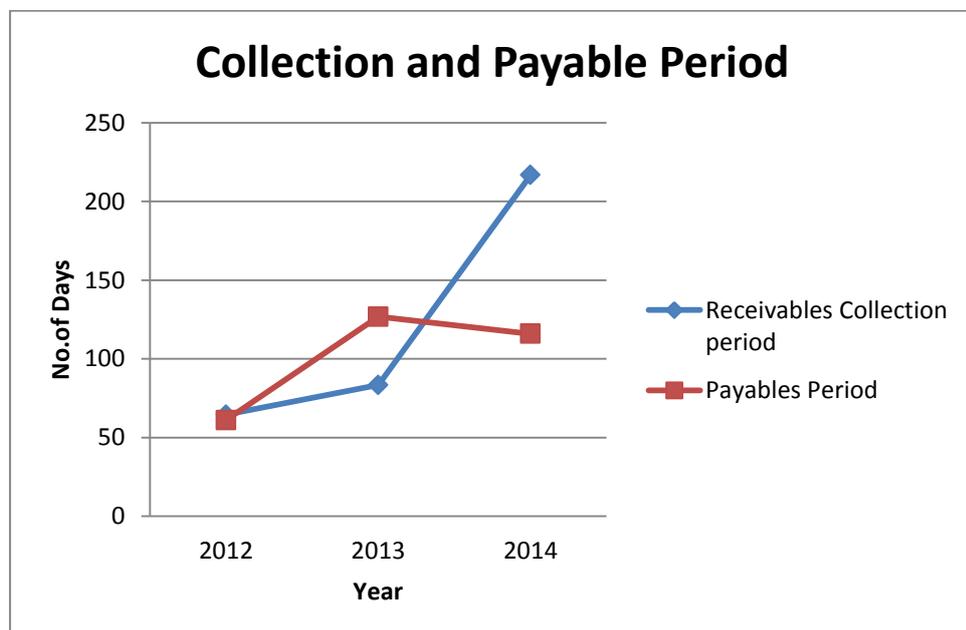
2.13 The board should discuss and review the Corporation's financial statistics on a regular basis. Also the board should analyse the financial situation of the Corporation and find ways to improve the financial performance. In order to improve financial performance, it is important for the board to consider the financial statistics when making board decisions, as this will help the board to make the right decision for the Corporation. One of the most common methods of financial analysis is ratio analysis. It is important for a business like MRDC to perform ratio analysis as the information can be used to analyse, and make decisions to improve the organization's performance as well as to determine its historical and current financial conditions. However, we observed that MRDC has never done a ratio analysis or any other analysis to understand the financial status of the Corporation and as a result most of the decisions taken by the Corporation were made without reference to data analysis. Also when we examined the board minutes of the Corporation we discovered that members had never discussed the financial position of the company and ways in which they could improve it in any of the board meetings. This has led to an underwhelming financial performance. Figure 6 to Figure 9 shows the profitability and liquidity ratios of the Corporation analysed by the auditors based on the audited financial statement for the year 2012, 2013 and 2014.

Figure 6: Profitability Ratio 2012-2014



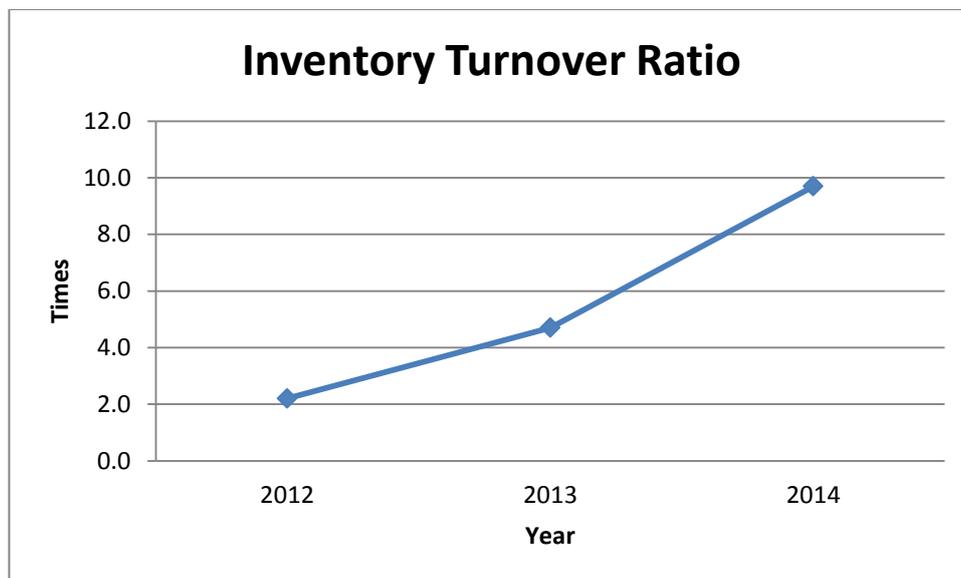
2.14 Figure 6 shows a decreasing trend in the gross profit margin of the Corporation. The figure reveals that the gross profit margin at 2012 was 39% while in 2013 it was -34% and in 2014 it stood at -41%. It also shows that expenses have increased over the three-year period resulting in a decreasing trend in net profit margin. In 2012, net profit margin was -12% and in 2013 net profit margin was -65%. In 2014, net profit margin was at -73%. Although the Corporation's turnover has increased during the period 2013-2014, both gross profit and net profit margins have fallen due to increase in cost of sales and other expenses of the Corporation. This raises the question of the sustainability of the organisation.

Figure 7: Collection and Payable period 2012-2014



2.15 Figure 7 reveals that the number of receivable days in 2012 was 64 days, while the number of receivable days in 2013 was 83 days and there have been a vast increase in the number of receivable days of 217 days in 2014. A long receivable period gives an impression of wrong choice of debtors or insufficient efforts to collect cash. This will also lead the Corporation to face cash flow difficulties. The figure shows the number of payable days in 2012 as 61 days, while the number of payable days has increased to 127 days in 2013 and in 2014 the number of days has decreased to 116 days. The average payable days in the three-year period were far too long and of concern, in respect of MRDC's reputation.

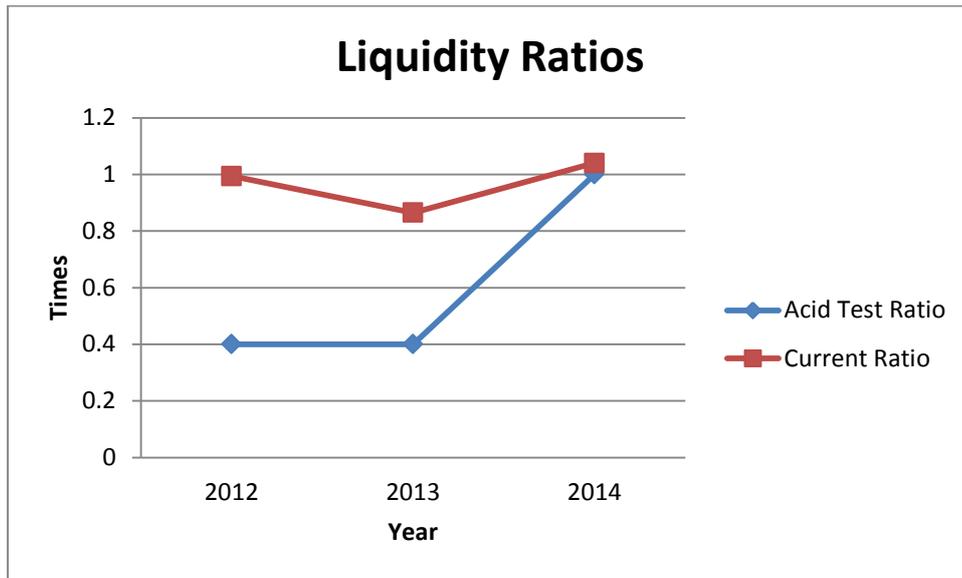
Figure 8: Inventory Turnover Ratio 2012-2014



2.16 Figure 8 shows in 2012, MRDC's turnover ratio was 2.2 times, while in 2013 it was 4.7 times and in 2014 inventory turnover has rapidly increased to 9.7 times. The increase in the inventory turnover ratio means that the Corporation is having strong sales performance and turning over inventory quickly also improves the Corporation's liquidity.



Figure 9: Liquidity Ratio 2012-2014



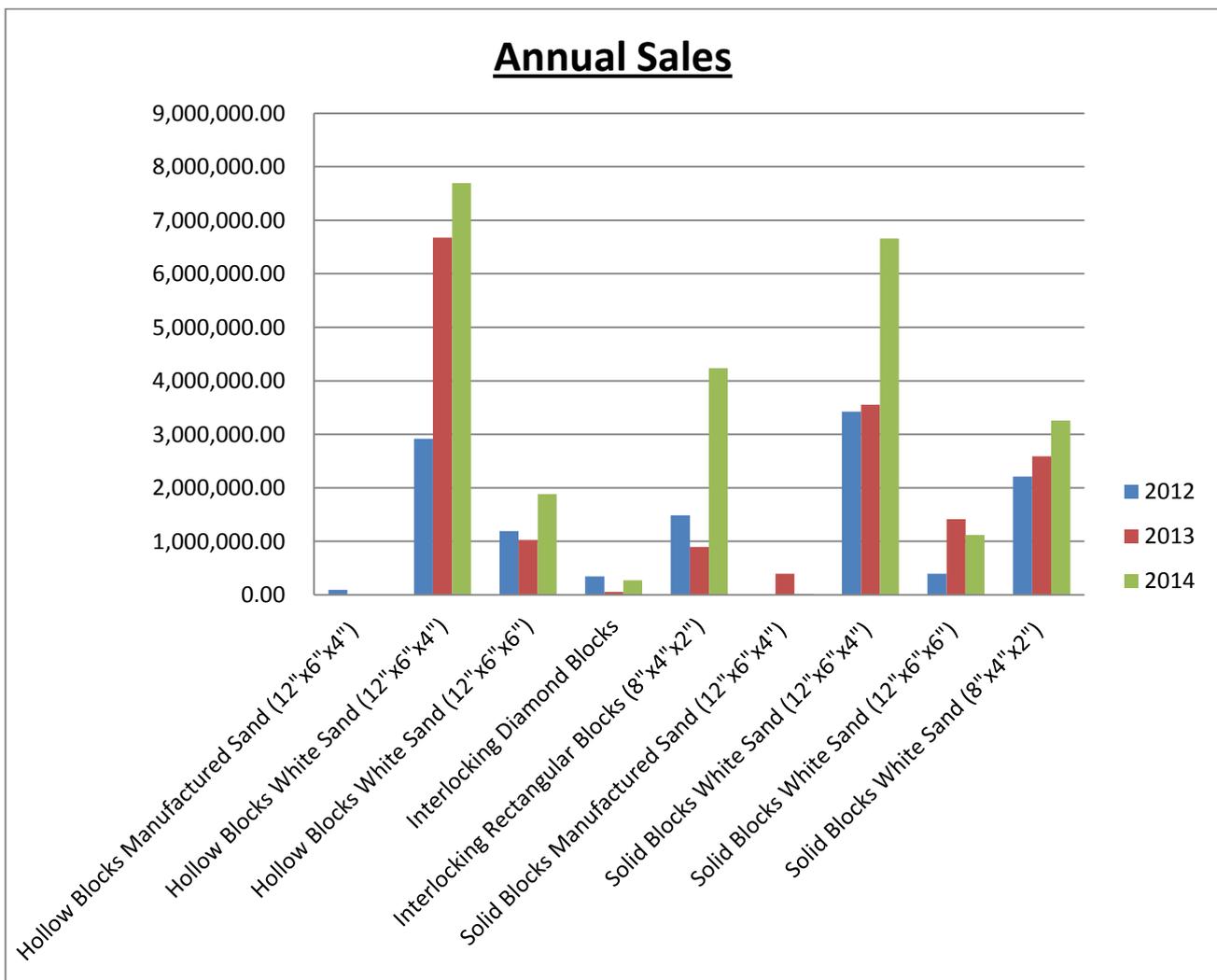
2.17 Figure 9 states that in 2012 current ratio were at 0.99, in 2013, 0.87 and 1.04 in 2014. A current ratio that is too low means there may not be enough current assets to meet short term financial obligations when they are due. MRDC should try to achieve ratio above 1:1 and as close to 2:1 as possible. In 2012 and 2013, acid test ratio of MRDC was at 0.4 and in 2014 it was at 1, showing an improvement.

PART 3: ECONOMY, EFFICIENCY AND EFFECTIVENESS OF THE PRODUCTION PROCESS

3.1 The Corporation makes different types of paving and masonry blocks. To carry out the production process the Corporation have set up factories in Male’ Head Office premises and Thilafushi Island. Building block production is carried out in Male’ Head Office premises, whereas pre-casted items which are needed for the projects and road repair are produced in Thilafushi factory. Though in other site offices masonry items are produced for the projects conducted in those islands and these products are not intended for selling.

3.2 The Corporation sold nine types of blocks during 2012 - 2014. The Figure 10 shows the sales of each type of block for the years 2012 - 2014. And Figure 11 shows the profitability of the blocks for the year 2012-2014.

Figure 10: Total annual sales of products

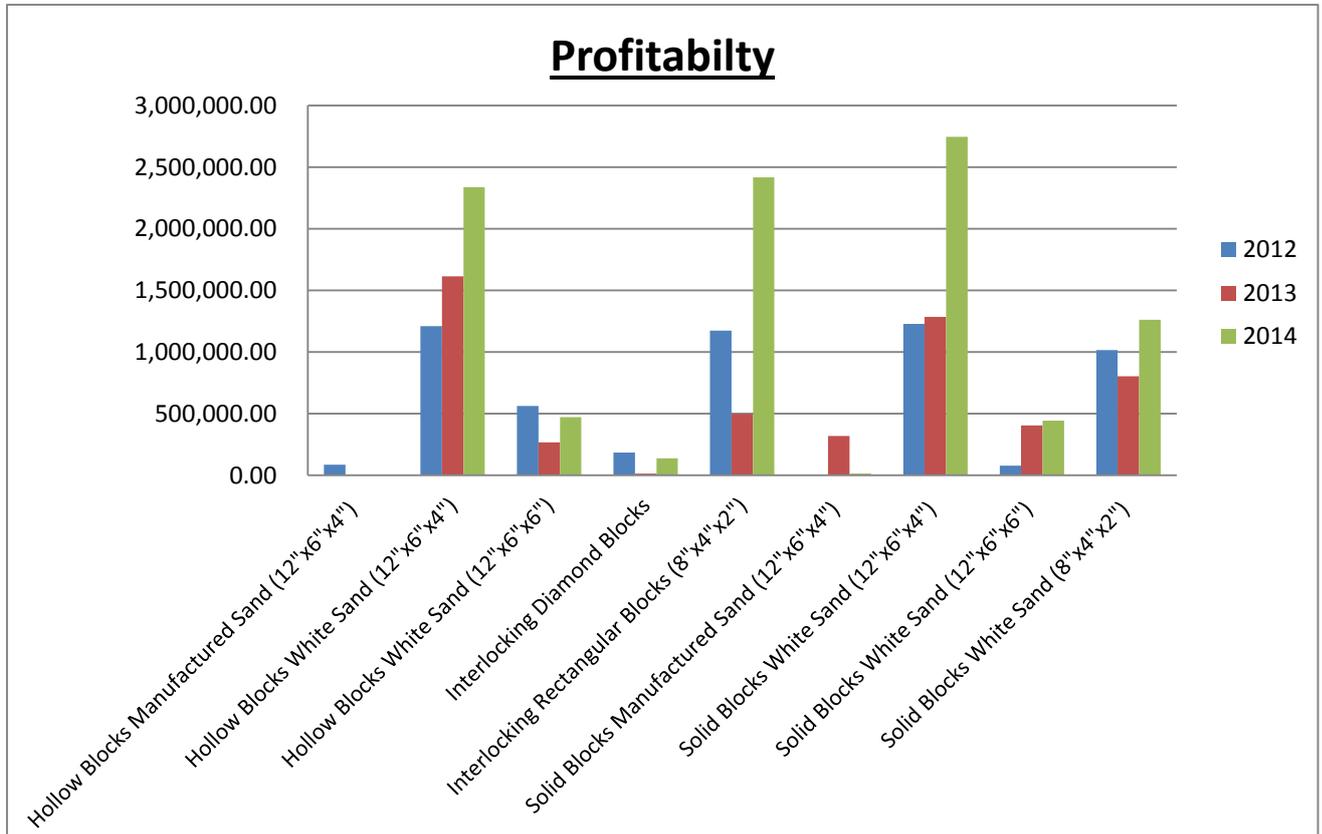


3.3 Figure 10 reveals that most sales are made from Hollow Block White Sand (12''x6''x4'') and the sales has increased from 2012 to 2014. The least sales are made from Hollow Blocks manufactured Sand (12''x6''x4'') and Solid Blocks Manufactured Sand (12''x6''x4''). Hollow Blocks manufactured Sand (12''x6''x4'') was ceased manufacturing after 2012. And Solid Blocks



Manufactured Sand (12''x6''x4'') there is a gradual decrease in sales from 2012-2014. The sales of both Interlocking Rectangular Blocks (8''x4''x2'') and Solid White Sand Blocks (12''x6''x4'') increase notably in the year 2014 when compared to the previous years. In overall the sales of blocks have tremendously increased in the year 2014 compared to 2012 and 2013.

Figure 11: Profitability by products 2012-2014



3.4 Figure 11 shows that Hollow Blocks Manufactured Sand (12''x6''x4'') was ceased producing in 2013 and 2014. So there aren't any profits made from this block in 2013 and 2014. Hollow Block White Sand (12''x6''x4'') was the third most profitable block in 2014 and 2012. This block was the most profitable block in 2013. In 2014 and 2012, Interlocking Rectangular Blocks (8''x4''x2'') was the second most profitable block, however, in 2013 this type of block was not making a decent profit. In 2014 and 2012 the most profitable block was Solid Blocks White Sand (12''x6''x4''), though in 2013 Solid Blocks White Sand (12''x6''x4'') was the second most profitable. Hollow Blocks White Sand (12''x6''x6''), Interlocking Diamond Blocks, Solid Block Manufactured Sand (12''x6''x4''), and Solid Blocks White Sand (12''x6''x6''), these blocks did not make decent profit from the year 2012-2014. In overall the profit from the sales of blocks have tremendously increased in the year 2014 compared to 2012 and 2013.

3.5 The production process was one of the key areas examined in the audit. We examined the main activities needed to ensure this objective, as follows:



- Production was carried out economically.
- Efficiency of the production process, whether the output meets demand and customers are satisfied with the level of service and the output.
- Meeting of targets and the profitability of the function

3.6 To analyse the satisfaction level of the customers to the products of MRDC, we sent survey forms to the customers of the Corporation. But none of the customers filled the survey forms. So we were unable to verify the customer's satisfaction level on the product of MRDC.

Internal targets or benchmarks are not set

3.7 It is important for the Corporation to set targets or benchmarks as this will help the management to review the performance of their production and it will help them to check whether they are achieving the objectives. Also targets and benchmarks will help the Corporation to identify the gaps in the production process at an initial stage. However, there isn't any documentary evidence that MRDC have set daily, monthly or yearly production targets or internal or external benchmarks. Without setting targets, there would be no motivation factors for the employees and it will be difficult for supervisors to review progress. And since the Corporation had not set targets the audit was unable to verify the efficiency of the Corporation in achieving its targets.

Material usage not monitored and damaged products are not recorded

3.8 Reducing material waste means greater resource efficiency and more profits. To reduce material wastage, it is important to monitor and maintain the records of the material usage on a regular basis. However, in Thilafushi site, MRDC does not keep any records of materials issued from Thilafushi store to Thilafushi production site. Also there is no segregation of duties in the task of controlling material usage and monitoring the production site. Inadequate record maintenance and lack of segregation of duties, concludes that MRDC does not use its resources efficiently, and this may lead the staff to gain personnel benefits.

3.9 Furthermore, we found that finished goods often get damaged during handling and transportation from Thilafushi site but these damages are not recorded on a day to day basis. Not maintaining proper records of the damaged items may lead to more wastage and inefficiency in production

Raw materials not maintained securely

3.10 Although, there was a Store at Thilafushi site, we observed that a large number of cement bags were lying around the production area outside the Store. The production area could be accessed easily by anybody and the cement bags were not kept securely. These cement bags were estimated to be more than the daily average usage of 50 bags. This may cause cement bags getting damped and ruined. It may also increase the risk of cement bags being stolen. And the fact that there were no local staffs to do on-site monitoring and cement bags were physically counted only at the year-end will increase the above mentioned risks.



Picture 1: Cement bags lying in the production area at Thilafushi site

- 3.11 Furthermore, we observed that segregation of duties was not exercised in the production process of MRDC Head Office. This is supported by the fact that raw materials issued for the production process are both requested and issued by the same person. This is a control failure and would subject the process to higher risks of fraud.

PART 4: ECONOMY, EFFICIENCY AND EFFECTIVENESS OF PROJECT MANAGEMENT.

- 4.1 The main objective of MRDC is to provide an efficient and safe road infrastructure for the country.
- 4.2 In the year 2012-2013 MRDC carried out only one project – Kulhudhufushi Road Project. However, in 2014 February MRDC signed 7 road projects. Also in the year 2014 MRDC signed other projects such as development of Football Arenas etc. In total MRDC conducted 23 projects in the year 2014.
- 4.3 At present MRDC does not tender for projects. And also the Corporation does not have the power to select the projects to conduct. Ministry of Housing and Infrastructure is the Corporation's parent entity. Strategic level decisions such as road to be developed and the requirements for road development are decided by the Ministry. And projects other than road projects are assigned to the Corporation by the government on an ad hoc basis.
- 4.4 This part studies whether MRDC have conducted the road development and other projects economically, efficiently and effectively. We examined the main activities needed to ensure this objective, as follows:
- Projects were initialized after considering the economic viability;
 - Efficiency of managing and monitoring the projects;
 - Projects are as per the time, budget and in good quality.

Detail Assessment not done before initiating the project

- 4.5 A feasibility study for each project is expected to be done, as the study will assess the viability, cost and benefit of the project. The current practice followed by MRDC in entering into projects is to negotiate project scope, project budget, duration of the project and project plan with the Ministry or government office which requires MRDC to carry out the project. MRDC does a rough survey to come up with an estimated costing for the project. Resource availability and procurement options are assessed based on informal assessments and assumptions. These assessments are not documented. However, a detail assessment or analysis is not carried out. Projects are taken up without determining the viability, cost effectiveness, resource availability, procurement options and likely risks of the project. Contracts are signed once the negotiations are finalized with the client. The absence of an initial assessment on the feasibility of the project, especially large and complex projects would mean that MRDC takes up projects without having a clear understanding of the viability of the project, staffing and equipment requirement and availability during the scheduled project duration. As a result, this may lead the Corporation to take up projects which are not economically viable to the Corporation.

Lack of Proper Planning

4.6 Proper planning is important for the successful management and execution of a project. The fundamental components of a project plan include: definition and scope, cost benefit analysis, staffing requirements, timeline or work schedule, risk analysis and critical success criteria's. In our audit we checked sample projects for the existence of a project plans and also checked the comprehensiveness of the project plans. Figure 12 illustrates the aspects we checked and the result.

Figure 12: Components of Project Plan

#	Projects	Components of Project Plan						
		Definition & Scope	Project Objectives	Cost Benefit Analysis	Staffing Requirements	Timeline / Approved work Schedule	Risk analysis	Critical Success Criteria
1	Sports Arena (Futsal Ground), S Hulhudhoo	x	x	x	x	✓	x	x
2	Road Development in 07 Islands	x	x	x	x	✓	x	x
3	S. Hithadhoo & S. Hulhumeedhoo Road Development Project, Phase 1	x	x	x	x	x	x	x
4	Gn. Fuvahmulah Wetland Project	x	x	x	x	x	x	x
5	S. Feydhoo Rahdhebai Magu and Harbour Area Road Construction	x	x	x	x	x	x	x
6	Paving Interlocking Blocks and Installing Settlement Tanks at Iskandhar Koshi	x	x	x	x	x	x	x
7	K. Maafushi Football Ground Levelling	x	x	x	x	x	x	x
8	HDh. Kulhudhufushi Ameen Magu Road Construction Project	x	x	x	x	x	x	x
9	Male' Kulhivaru Ekuveni Demolition	x	x	x	x	✓	x	x

- 4.7 Figure 12 illustrates that proper planning had not been done for any of the projects before initiating the projects. However, an approved work schedule had been prepared for Sports Arena (Futsal Ground, S Hulhudhoo), Road Development in 07 Islands and Male' Kulhivaru Ekuveni Demolition project.
- 4.8 MRDC may have verbally agreed on and acknowledged the project scope, objectives, resource requirements, costs, risks and critical success area before starting the project. However, we found that none of the projects that were taken as samples had a proper project plan. In addition, we observed that there were no guidelines or procedures given to the staff on how the project plan should be prepared. Due to this, some projects had some form of planning while others lacked any planning. In the absence of proper planning and discussion of the project plans with the project team and stakeholders MRDC could face difficulties in the management and control of projects as they progress

Lack of a project monitoring process

- 4.9 MRDC have conducted several projects during the past years. And the organisation has a separate unit to oversee the projects conducted. Although a separate unit is established and supervisors were appointed to monitor the projects, there is no internal document (guidelines) on how the project should be monitored. Due to this, for some of the projects, progress reports were prepared on a daily, weekly or monthly basis, while for other projects progress reports were not prepared at all. Furthermore, for the progress reports that were prepared we found that the reports lacked fundamental aspects that should be included in a progress report. For instance, a comparison between planned and actual schedule, actual costs, key issues and identified risks, tasks and next actions and further decision required were not included in the reports. The highlighted issues determine that MRDC had not implemented a strong project monitoring processes within the organisation and as a result, the projects conducted were not efficiently and effectively monitored by the organisation. Shortcomings in efficient monitoring could hinder the execution of the projects as per project schedule. It could also prevent the identification of potential problems and risks at an early stage in order to provide timely solutions. It also meant that the project team was not able to evaluate the extent to which project objectives were achieved and stakeholders could not be kept up-to-date on the project status.

Project Progress reports were incomplete and reports were not prepared on a regular basis

- 4.10 Project progress reports are required to be prepared on a regular basis to know whether the project is being implemented as per the proposed project plan and project schedule. Also progress reports are important as it keeps the project team and stakeholders informed on the status of the project. During the audit we tested some of the projects to ensure whether project

progress reports were prepared. We checked whether progress reports were prepared on a daily, weekly or monthly basis. Figure 13 below illustrates the findings of this test.

Figure 13: Status of Progress Report

#	Projects	Signed Date	First Progress Report Date	Progress Report		
				Daily Report	Weekly Report	Monthly Report
1	Sports Arena (Futsal Ground), S Hulhudhoo	25-May-14	25-May-14	✓	-	-
2	Road Development in 07 Islands	21-Feb-13	Sep-14	-	-	✓
3	S. Hithadhoo Road Development Project, Phase 1	16-Mar-13		✓	✓	✓
4	Gn. Fuvahmulah Wetland Project	16-Jun-14	21-Jul-14	-	✓	-
5	S. Feydhoo Rahdhebai Mahu and Harbour Area Road Construction	09-Sep-14		x	x	x
6	Paving Interlocking Blocks and Installing Settlement Tanks at Iskandhar Koshi	27-Feb-13		x	x	x
7	HDh. Kulhudhufushi Ameenii Magu Road Construction Project	07-Apr-11	May-11	✓	-	-
8	Demolition of 2 Buildings Adjacent to Male' Ekuveni	17-Dec-14	Jan-15	-	-	✓

4.11 We identified that out of the eight projects taken for audit sample, progress reports were prepared for five projects. Out of these daily reports were produced for two projects and weekly reports were produced for one project and monthly reports were prepared for two projects. MRDC failed to produce any type of reports for the remaining three projects.

4.12 Furthermore, we identified that some of the site reports that were prepared were incomplete. This include the daily site report of S. Hulhumeedhoo Futsal Ground Development Project, which shows details of non-working days, rainy days and the days on which additional works were carried out. However, the daily site report does not give details of the days on which contractual works were carried out.

4.13 In addition, we identified that out of the nine projects taken as sample, progress reports were not prepared on a regular basis for the following three projects.

- Road Development in seven Islands Project was started on 21 February 2013. However, the monthly progress reports were prepared from September 2014
- Gn. Fuvahmulah Wetlands Project was commenced on May 2014. However, weekly reports were prepared starting from July 2014
- HDh, Kulhudhuffushi Ameen Magu Development Project was commenced on February 2011, however status reports were prepared from May 2011

4.14 There is no documentary evidence on why the progress reports were not prepared on a regular basis. Also due to lack of documentation we were unable to examine whether the project was started on the agreed date or not. As progress reports are incomplete and not prepared on a regular basis, it will be difficult to verify the status of the project and to verify whether the project is as per the planned budget and time.

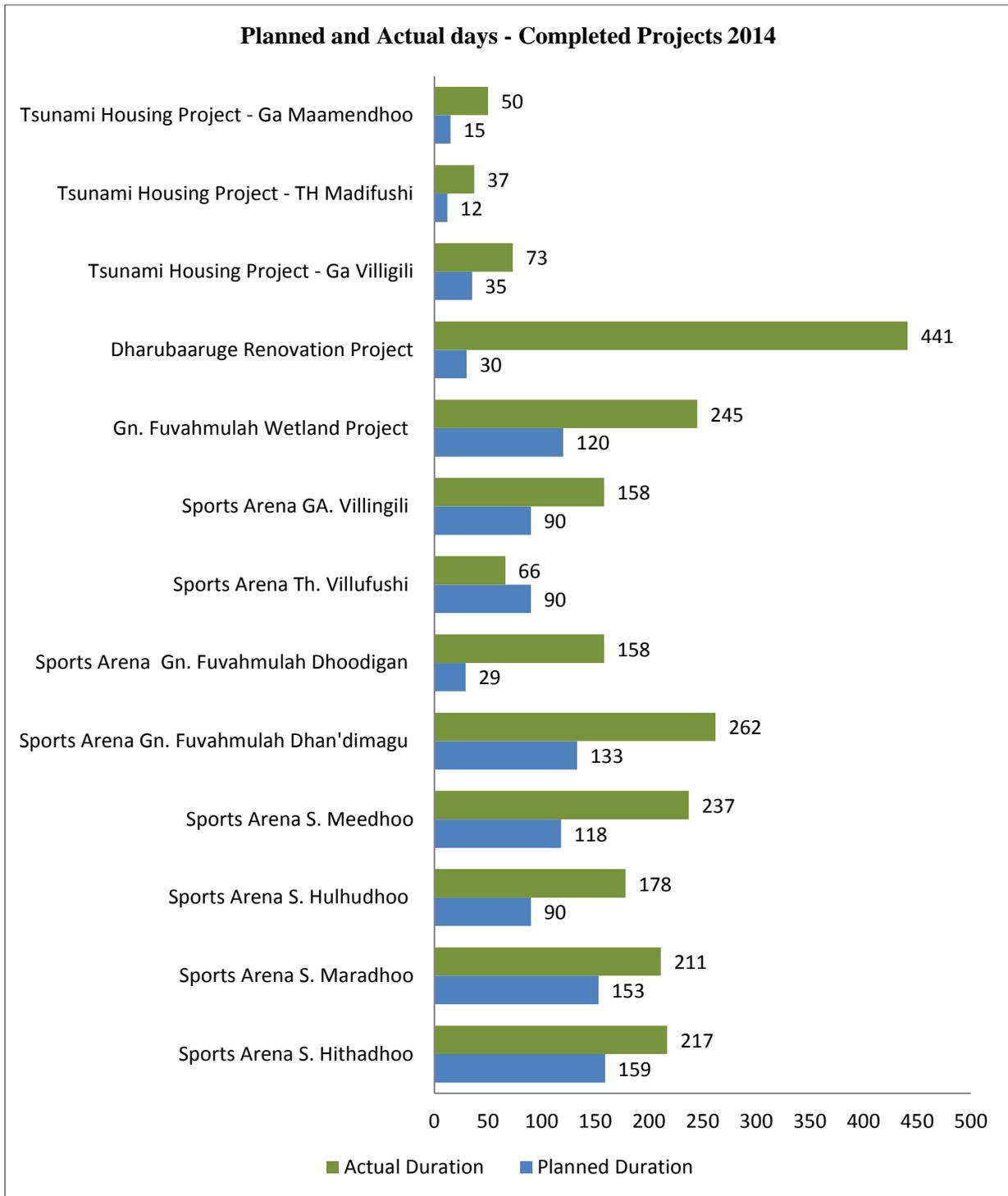
Time variation in completing the projects

4.15 In a project the time for completion is stated in the contract between MRDC (contractor) and the client. This time might be revised by the parties once or couple of times depending on different reasons. It is important for the parties to document these time revisions. However, we observed that there had been huge variations between the actual project completion time and the time agreed to complete the project, without any written evidence of project completion time being revised.

4.16 To measure the efficiency of MRDC in terms of project completion on time, we compared the actual completion dates of the projects to the planned completion dates. The comparison was made from the year 2011 - 2014. During this period MRDC conducted a total of 29 projects. Out of these 29 projects, 25 projects were agreed to be completed on 1st of October 2015. Although MRDC was incorporated on 2010, first project was signed on 2011 and in the year 2012 there were no new projects. Figure 1 to 5 shows the comparison of actual project completion time to the planned project completion time on a year basis.

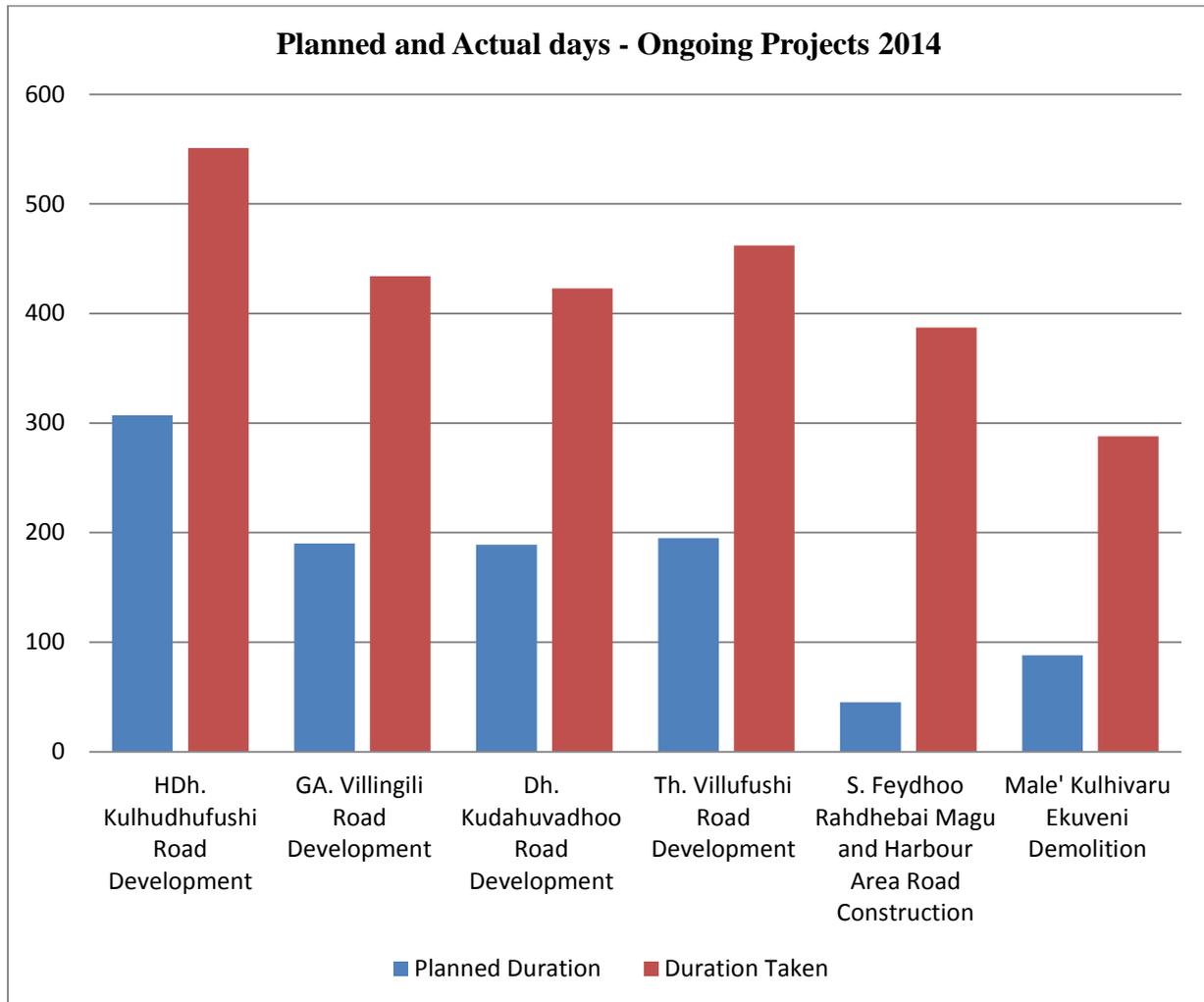
4.17 In the year 2014 MRDC entered into 23 projects. Out of these, 19 projects were planned to be completed by 1st October 2015. From the projects that were due to be completed 13 projects have not been completed till date. Figure 14 shows the number of days taken to complete the projects relative to planned duration.

Figure 14: Planned and Actual days of Completed Projects in 2014



4.18 Figure 14 shows that only one project was completed to agreed completion date. All other projects have exceeded the planned completion date. Out of the 19 projects that are due to be completed by 1st October 2015, six projects were not completed till the time of this audit (January 2016).

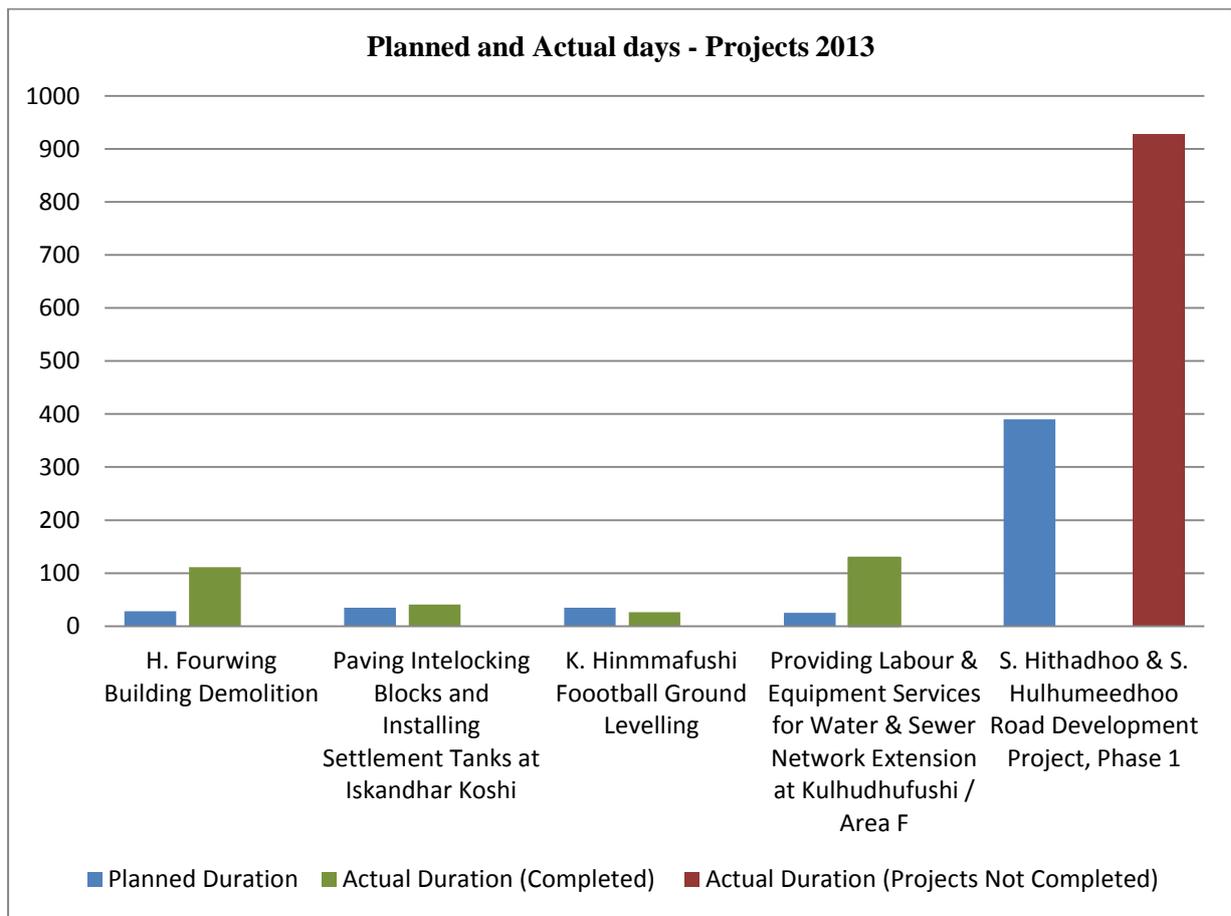
Figure 15: Planned and Actual day- On-going Projects



4.19 Figure 15 shows that the projects have substantially deviated from the original schedules. For instance, due to the deviation from the original schedule, S. Feydhoo Rahdhebai Magu and Harbour Area Road Construction Project were not completed at the time of this audit (January 2016). The contract for S. Feydhoo Rahdhebai Magu and Harbour Area Road Construction Project requires MRDC to put road markings, which has not been completed by MRDC as per the project schedule.

4.20 In the year 2013, MRDC entered into six contracts, out of these four projects have been completed. Figure 16 shows the duration taken to complete the projects.

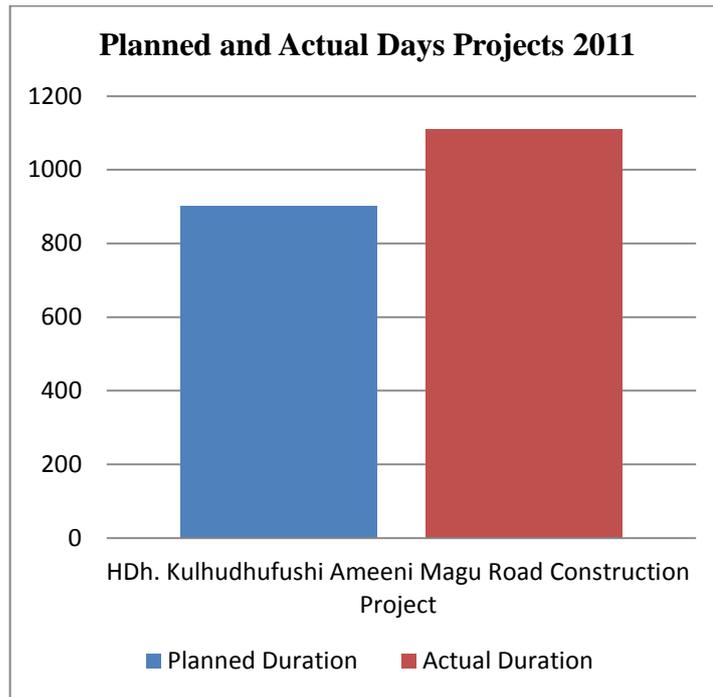
Figure 16: Planned and Actual days of 2013 Projects



4.21 All the five projects committed in 2013 were due to be completed by 1st October 2015. Figure 16 shows that out of the five projects, one project had been completed ahead of time, three projects had been completed behind schedule and one project remains unfinished to date. S. Hithadhoo & S. Hulhumeedhoo Road Development Project has not been completed as road markings have not been placed by MRDC at the time of this audit (January 2016).

4.22 Only one project was committed in 2011. Figure 17 shows the status of the project.

Figure 17: Planned and Actual Days of 2011 Projects

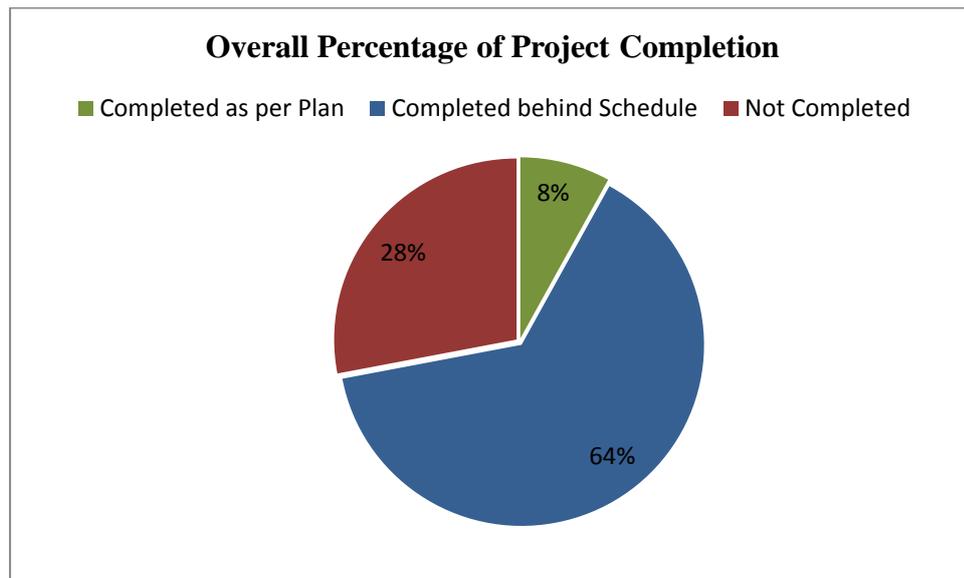


4.23 Figure 17 shows that the planned completion days for HDh.Kulhudhufushi Project was 901 days. However, the actual duration of the project was 1110 days, which is 209 days more than the planned days.

4.24 Furthermore, when we enquired with management, it was revealed that the HDh. Kulhudhufushi Ameen Magu Road Construction Project was closed without completing the project. 50 meters of the road was not developed as per contractual terms. MRDC explains that work could not be carried out as the Maldives Water and Sewage Company (MWSC) had not finished prerequisite works in the road. MRDC and the Ministry of Housing and Infrastructure have agreed that unfinished works of the project would be carried out as part of the road development project carried out in HDh. Kulhudhufushi, which was signed in 2014.

4.25 Figure 18 shows the overall status of the projects due to be completed as at 1st October 2015.

Figure 18: Overall Percentage of Project Completion 2012-2014



4.26 Figure 18 shows that 8% of the total projects were completed as per project plan, while 64% had been completed later than the scheduled date and 28% of the projects that were due to be completed have not yet been completed. According to the documents passed between clients, the main factors contributing to delay are material unavailability and lack of coordination with sub-contractors. Failure to complete 92% of the projects on time shows that MRDC lacks efficiency required to complete its projects as per the schedule. These could have adverse effects on the reputation of the Corporation.

Variation in planned and actual cost

4.27 At the initial stage of the project, a planned budget is prepared for each of the project to determine the estimated cost for the projects. This planned budget could be used as a control measure of the projects actual cost. In our audit we compared the actual budgets of the projects with the planned budgets to analyse the disparity between the two budgets. This test is limited to projects initiated in 2014, as we did not receive costing information for projects initiated in any other year. We observed that, out of the 24 projects initiated in 2014, there were variances identified in the actual and planned budget of five projects. These variances were due to additional works not included in original scope of the project. This happens because of inadequate planning. Figure 19 shows the original budget of the projects against revised budgets and the percentage of variance compared to the original budget.

Figure 19: Original budget against revised budget

#	Project	Planned Budget	Variance	Final Revised Budget	Percentage Relative to Original Budget
1	Sports Arena (Futsal Ground) S. Hithadhoo	1,171,467	80,000	1,251,467	7%
2	Sports Arena (Futsal Ground) S. Hulhudhoo	1,171,467	85,000	1,256,467	7%
3	Sports Arena (Futsal Ground) S. Meedhoo	1,171,467	65,000	1,236,467	6%
4	Sports Arena (Futsal Ground) Gn. Fuvahmulah Dhan'dimagu	1,208,805	120,000	1,328,805	10%
5	Sports Arena (Futsal Ground) GA. Villingili	1,331,909	95,000	1,426,909	7%

4.28 Figure 19 shows that out of the five projects which had variances, four projects had 6% to 7% variances and the remaining project had 10% variance compared to the original planned budget of the project. Variations were informed to the client in a letter which states the additional work that has to be carried out with the price. This letter was acknowledged by the client; however a written change request / variation request was not signed between MRDC and the client.

Actual Cost of the Project were not maintained adequately

4.29 MRDC uses QuickBooks Software to record expenses incurred and income earned in respect of the projects. In our audit we compared the actual cost recorded in the system with the planned cost of the projects. The objective of this test was to measure the profitability of the projects and also to check whether there are any cost overruns. However, we found that MRDC records only costs of material pertaining to its projects; other costs such as logistics costs, travel costs, labour costs and management costs are not recorded and accounted for. Thus, a comparison of actual costs to planned costs was not carried out and the audit test was altered to measure the percentage of costs that has been recorded compared to the planned cost of the projects. This test is also limited to information available in 2014 and the test is carried out for projects that have been closed. Table illustrates a comparison between the actual costs recorded in QuickBooks against planned costs. Figure 20 shows, percentage of actual costs recorded as a percentage of planned cost.

Figure 20: Percentage of actual cost to planned cost

#	Project	Planned Budget	Planned Cost	Actual Cost	Difference Between Planned & Actual	Recorded Cost as a Percentage of Planned Cost
1	Futsal Ground S. Hithadhoo	1,171,467	943,499	419,334	524,165	56%
2	Futsal Ground S. Maradhoo	1,171,467	943,499	377,887	565,612	60%
3	Futsal Ground S. Hulhudhoo	1,171,467	943,499	299,204	644,295	68%
4	Futsal Ground S. Meedhoo	1,171,467	943,499	226,295	717,204	76%
5	Futsal Ground Gn. Fuvahmulah Dhan'dimagu	1,208,805	943,499	464,389	479,110	51%
6	Futsal Ground Gn. Fuvahmulah Dhoodigan	1,208,805	943,499	213,114	730,385	77%
7	Futsal Ground Th. Villufushi	1,223,115	943,499	405,162	538,337	57%
8	Futsal Ground GA. Villigili	1,331,909	943,499	534,982	408,517	43%
18	Gn. Fuvahmulah Wetland Project	4,405,085	2,877,466	1,410,583	1,466,883	51%
22	Dharubaaruge Renovation Project	6,273,485	4,705,113	5,923,797	- 1,218,684	
23	Tsunami Housing Project - Ga Villigili	7,075,500	5,306,625	195,242	5,111,383	96%
24	Tsunami Housing Project - TH Madifushi	1,378,000	1,033,500	7,970	1,025,530	99%
25	Tsunami Housing Project - Ga Maamendhoo	4,770,000	3,577,500	2,500,000	1,077,500	30%

4.30 Figure 20 shows that for most of the projects, actual recorded costs are relatively low compared to the planned cost. Exception was found in Dharubaaruge' Renovation Project, for which actual cost had exceeded the planned cost by MVR 1,218,684.00. MRDC has informed that the works of the project were carried out for an estimated quantity with rates and that the project was measure and pay contract but the rates are fixed. MRDC stated that, a document is not necessary as this would not be considered as a cost overrun as planned cost and actual cost are not for the same scope of the work. However, it is important to note that if MRDC have accounted all the costs of the project the actual cost of the project would exceed the total budget of the project.

4.31 In addition, as the Corporation had not recorded all the actual cost we were unable to measure the financial performance of the project. Furthermore, we were unable to determine whether the

project generated a profit or loss. As the Corporation does not recognize all the costs the Corporation will not be able to control and manage cost efficiently. Also decision making will be adversely affected as true and adequate accounting information was not available

Inadequate use of Assets

4.32 We have been informed that Thilafushi site gradually stopped production due to shortage of labour on 14th July 2015. And they resumed production on 2nd September 2015. Even after resuming production we observed that one concrete block machine at Thilafushi site has been remained idle for the past year (from 13th Dec 2014). There are only three concrete block machines in MRDC of which two machines are used by Head Office. It is the responsibilities of the organisation to utilise the machines effectively and to increase the production of the organisation.



Picture 2: Block machine at Thilafushi site that has been remaining idle for the past year

4.33 At the time of our visit to Addu site office, we observed that MRDC Addu site office was not carrying out any projects at that period. Therefore, Assets that are obtained for the purpose of carrying out projects had been mostly used for other purposes like sand excavation and delivery or in waste management project carried out in Addu city. When these assets were used for other purposes the site office had not maintained a log until 2014, on how these vehicles were utilised, due to this we were unable to verify whether the vehicles were used for official or personal purpose.

4.34 During the visit to MRDC Addu site office, we carried out a physical inspection of assets. In this inspection we were informed that a vehicle was transferred from MRDC Addu site to Ga.Villingili site. . However, we had not received any documents regarding this transfer

Delay in attending customer requests, due to financial incapability and limitation in the Corporations mandate

- 4.35 Although the Corporation is established as a specific Corporation to develop roads of the Maldives, the Corporation does not have a role in making decision on which road to develop, maintain and repair. If the general public faces any problems regarding the roads, the procedures to follow till 2015, was to file complaints to the City Council and City Council requests MRDC on which roads are to be repaired. Once MRDC receives the request they are to attend that request as soon as possible. However, during our visit to MRDC Addu site Office we identified that there were lots of complaints filed by the public, especially repair on roads that are unpaved (sand roads) and there were delays in attending these complaints by MRDC Site Office.
- 4.36 Furthermore, we received information about taxi drivers protesting against Addu City Council and MRDC Addu site Office, because they were facing huge losses on vehicle maintenance expenditure as the roads were not repaired on a regular basis. Therefore, Addu City council complained that even though they have requested for road repair of 50 roads in Addu City, MRDC Addu site office has not attended the requests which resulted in inconveniences to general public leading to complaints and protests. Moreover, MRDC have informed that these delays had been occurred as the government had not made timely payments to the roads that were previously developed and the Corporation was financially not capable of accommodating such needs.



Picture 3: Sand roads flooded after heavy rain (Hithadhoo / Addu City)



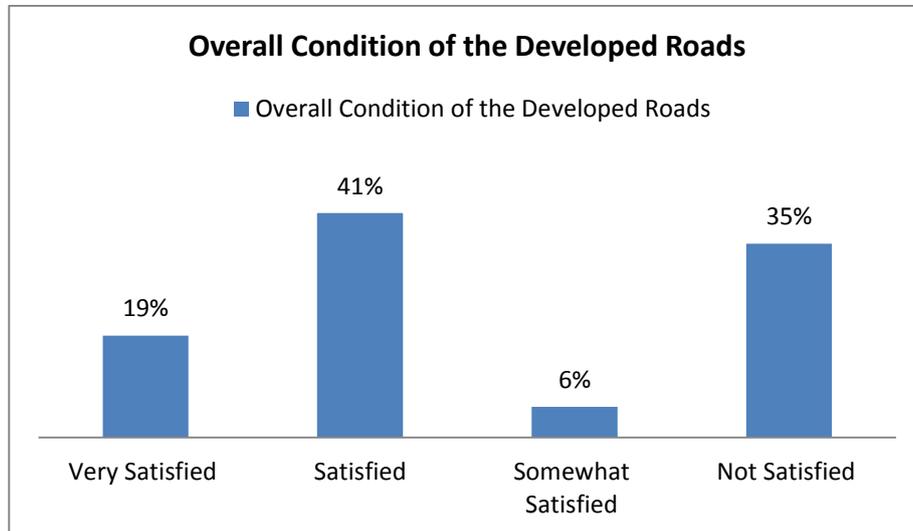
Picture 4: Sand roads flooded after heavy rain (Hithadhoo / Addu City)

Public not satisfied with the design and quality of some of the roads developed

4.37 In our audit we conducted a survey to examine the quality of the roads developed by the Corporation. In this survey we asked the general public about the quality of the roads, their satisfaction level regarding the roads and the problems that they face. The road development projects carried out by MRDC in Addu City includes S. Hithadhoo Medhe'aari Magu, S. Hithadhoo Rah'dhebai Magu, S. Feydhoo Harbour Side Road, S. Feydhoo Rah'dhebai Magu, S. Hulhumeedhoo Muhusinie Magu, S.Hulhumedhoo Lily Magu and S. Hulhumeedhoo Roashanie Magu. The survey forms were filled by a total of 55 people among the three islands where road development projects were carried out. Figure 21 to Figure 27 shows the result of this survey.

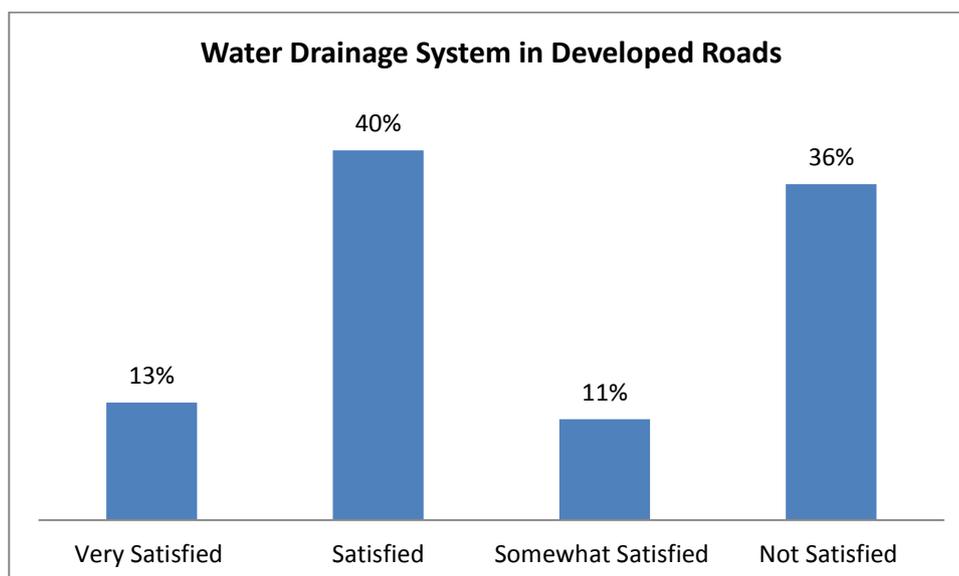
4.38 Figure 21 shows that 19% of the people were very satisfied with the condition of the developed roads, 41% of the people were satisfied, while 35% of the people were not satisfied and 6% of the people were somewhat satisfied.

Figure 21: Overall Condition of the Developed Roads



4.39 Figure 22 shows that 13% of the people were very satisfied with drainage system in developed roads, 40% people were satisfied, while 36% of the people were not satisfied and 11% of the people were somewhat satisfied.

Figure 22: Water Drainage System in Developed Roads



4.40 People raised concerns that a drainage system was not integrated in S. Hithadhoo Rah’ dhebai Magu when the road was developed. Although water does not flood in this road, water from the road was seeped to the two roads at the end of this road (i.e. S. Hithadhoo Ghazee road and the

sand road) and water was logged at the intersection to Ghazee road. Users complained that water remains logged for days.



Picture 5: Water logged at the intersection to Ghazee road from Rahdhebai magu (Hithadhoo / Addu city)

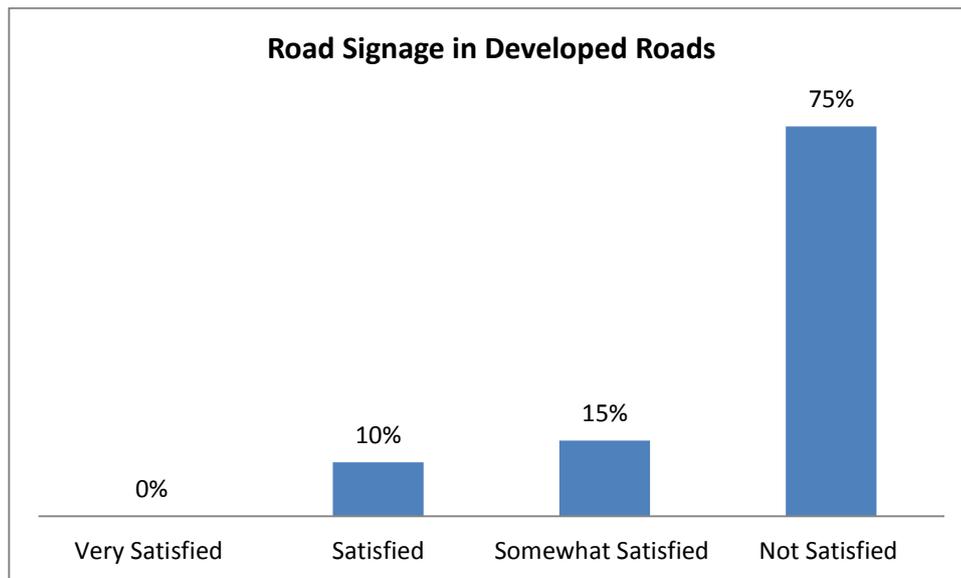
4.41 People raised concerns that the drainage gutters in S. Hithadhoo Medhe'aari Magu were of poor quality and gutters were damaged from the weight of vehicles, injuring people and damaging vehicles.



Picture 6: A gutter in Mendhaari magu (Hithadhoo /Addu city)

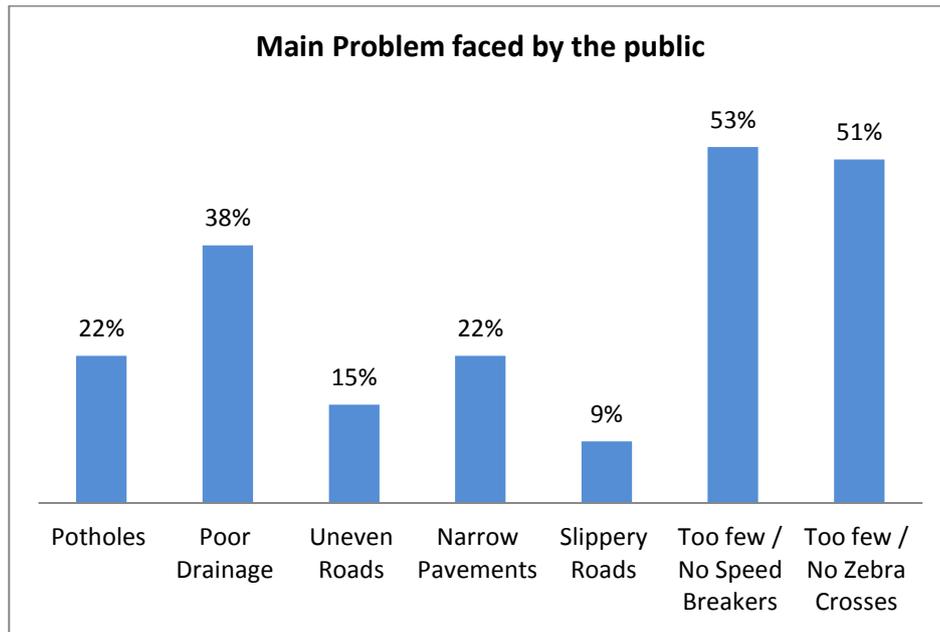
4.42 Figure 23 reveals the satisfaction level of the general public on the road signs in developed roads. Figure 23 shows that none of the people were very satisfied, 10% of the people were satisfied. The majority of 75% of the people were not satisfied, stating that traffic signage, speed breakers, zebra crosses, parking zones and markings to delineate lanes were needed in some developed roads. Furthermore, it was observed that the road signage was included in the design given by Housing Ministry; however, none of the roads constructed by MRDC had implemented the road signage.

Figure 23: Road Signage in Developed Roads



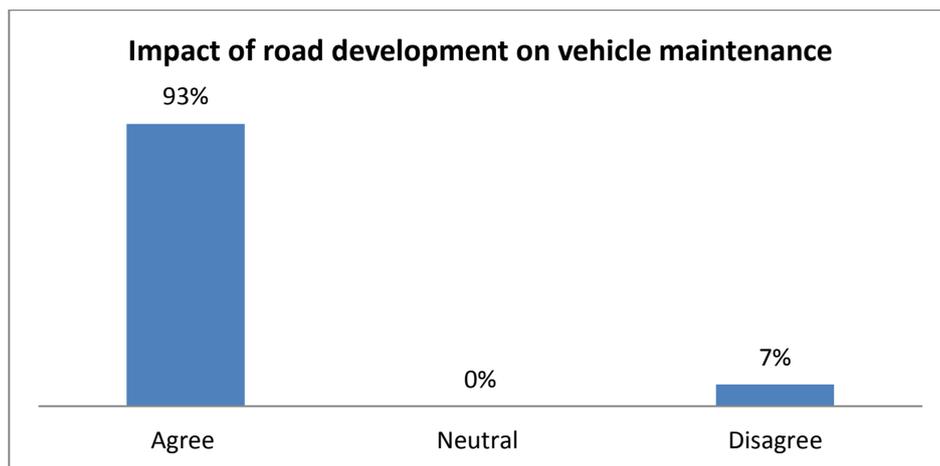
4.43 In the survey people were asked about the main difficulties that they face when they use these roads. Figure 24 reveals that 53% of the people said there were no or too few speed breakers, while 51% said that there were too few or no zebra crosses. 38% of the people were facing problems with the drainage system and 22% of the people were not happy because there are potholes.

Figure 24: Main problems faced by the Public



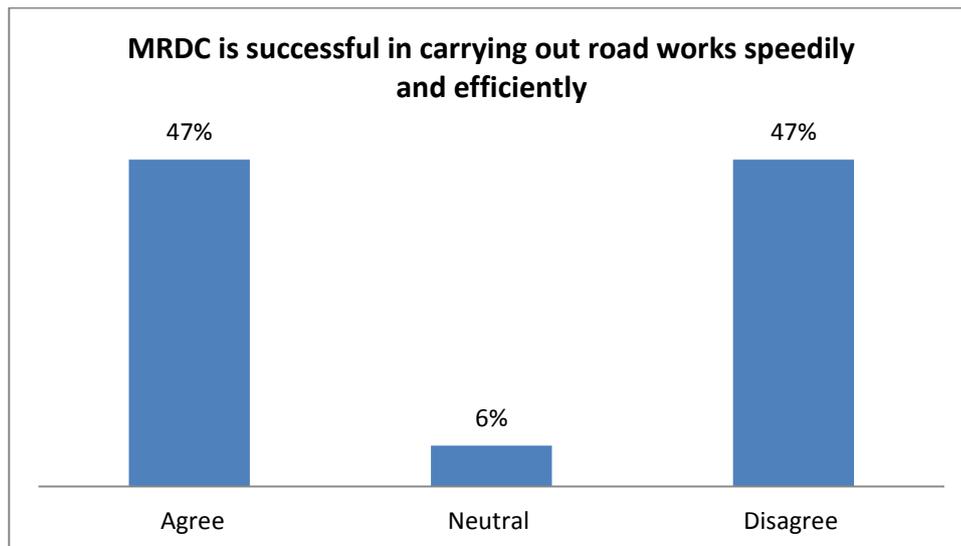
4.44 The general public were asked their perception on road development. Figure 25 shows that 93% of the people agreed that it had helped to reduce vehicle wear and tear while 7% disagreed. Those who disagreed highlighted that more roads need to be developed to have a noticeable impact. They also highlighted that more roads need to be developed to have a significant impact on reducing vehicle repair and maintenance costs, fuel consumption costs and the number of accidents due to poor road conditions.

Figure 25: Impact of road development on vehicle maintenance



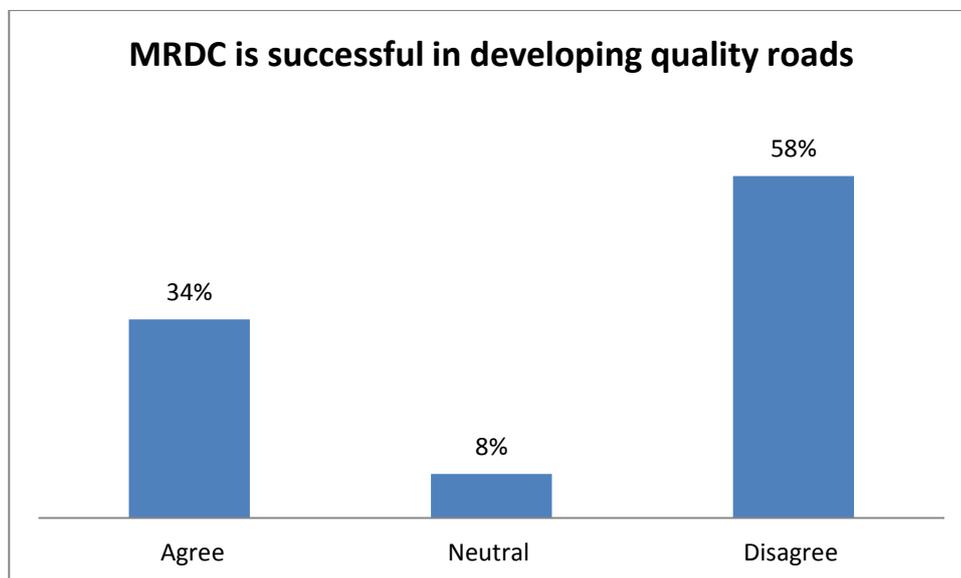
4.45 Figure 26 shows that among the surveyed an equal percentage of 47% of the people agreed that MRDC was successful in carrying out road works speedily and efficiently while 47% of the people disagreed with this notion and 6% of the people established that they were neutral.

Figure 26: MRDC is successful in carrying out road works speedily and efficiently



4.46 Figure 27 shows that among those surveyed 34% of the people agreed that MRDC was successful in providing quality roads while 58% of the people disagreed and 8% of the people established that they were neutral.

Figure 27: MRDC is successful in developing quality roads



4.47 Based on the survey, we identified that public was most exasperated with the sand roads, where roads are flooded after rainfall and water does not drain even after days. Public complained that MRDC does not attend to repair the roads in a timely manner. They also complained that their daily lives were disrupted and local businesses were affected and as a result, many felt that it was unfair that the people of Addu City had to pay the government the same fees (such as roadworthiness, annual vehicle fee, annual insurance fee) as that of a person using a vehicle in the capital Male’.



Picture 7: A flooded sand road in Hulhumeedhoo (Addu City)

4.48 Public also raised concerns that most roads were developed without a proper plan, where sewerage system and trunking systems were not integrated in the plans and in some developed roads a proper drainage system was not developed. Public noted that road developers had to consider sustainable and holistic development rather than focusing on short term goals and solutions. Public highlighted that additional expenses had to be incurred due to this. MRDC highlighted that the roads were designed as per the requirements of the Ministry of Housing and Infrastructure.



Picture 8: Rahdhebaimagu developed without a drainage system (Hithadhoo / Addu city)

4.49 Another concern and reason for dissatisfaction was the poor quality of patch work after trunking works. Public complained that the surface of the roads were uneven and potholes are left after

trunking works. Although these roads were constructed by MRDC, maintenance of the roads was not included in the mandate of the Corporation; due to this until the relevant authorities inform the Corporation to attend such problems the Corporation does not attend it.



Picture 9: Uneven areas in Randhebaige magu (Hithadhoo / Addu city)

4.50 The General Public of Feydhoo complained that only a small area in harbour side road was developed. This resulted in crowding the harbour area where road was developed, as all mariners want to dock their vessels in this area. People also noted that road was not cleared after development works leaving coarse sand on the tar roads. MRDC have highlighted that road was developed as per the requirement of Ministry of Housing and Infrastructure



Picture 10: Area not developed in Harbour site (Feydhoo / Addu city)

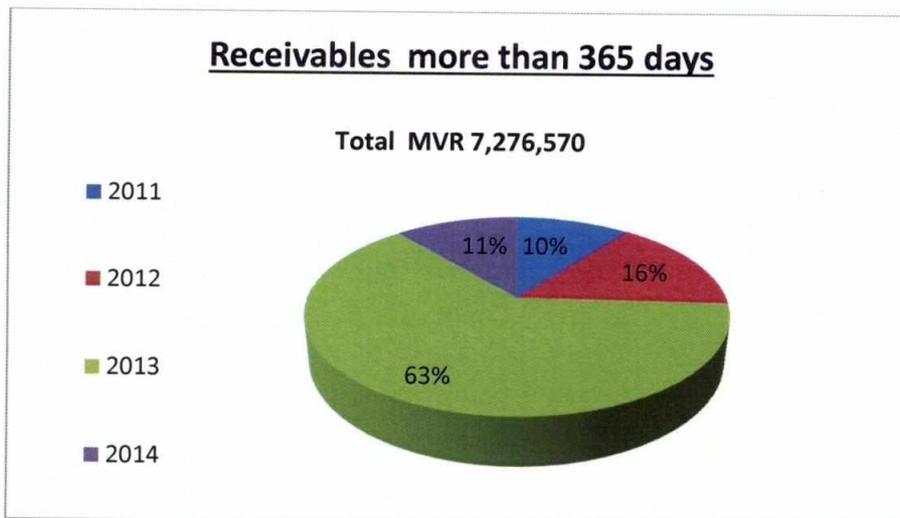


Picture 11: Harbour Finishing work not done (Feydhoo / Addu City)

Outstanding receivable of MVR 7,276,570 for more than a year

4.51 Age receivables report as at 31 July 2015 shows that MVR 17,896,610 of receivables was more than 90 days. And within this MVR 7,276,570 was more than one year. Figure 28 shows the breakdown of the receivables that has aged more than a year.

Figure 28: Receivables aging more than a year



- 4.52 Figure 28 reveals that in 2011, 10% of the receivables were more than 365 days, in 2012 it was 16% and in the year 2013 it increased vastly to 63%, while this amount has decreased to 11% in 2014.
- 4.53 To some extent MRDC had taken actions to recover the receivables. The Corporation had sent letter to some of the government institutions and private parties who owe money. Other than sending letters to the government institutions, MRDC have not taken any other actions to recover the receivables. However, recollection from private companies was quite stringent where MRDC withholds any services given to these companies and brings the credit limit to zero until the overdue invoice was paid. Moreover, we had found that the figure given in receivables report were not reliable as it includes order that had been cancelled and invoices that had been already paid. Delays in taking further actions to recover the receivables, will lead to increase the age of the receivables resulting financial difficulties for the Corporation.

14th June 2016

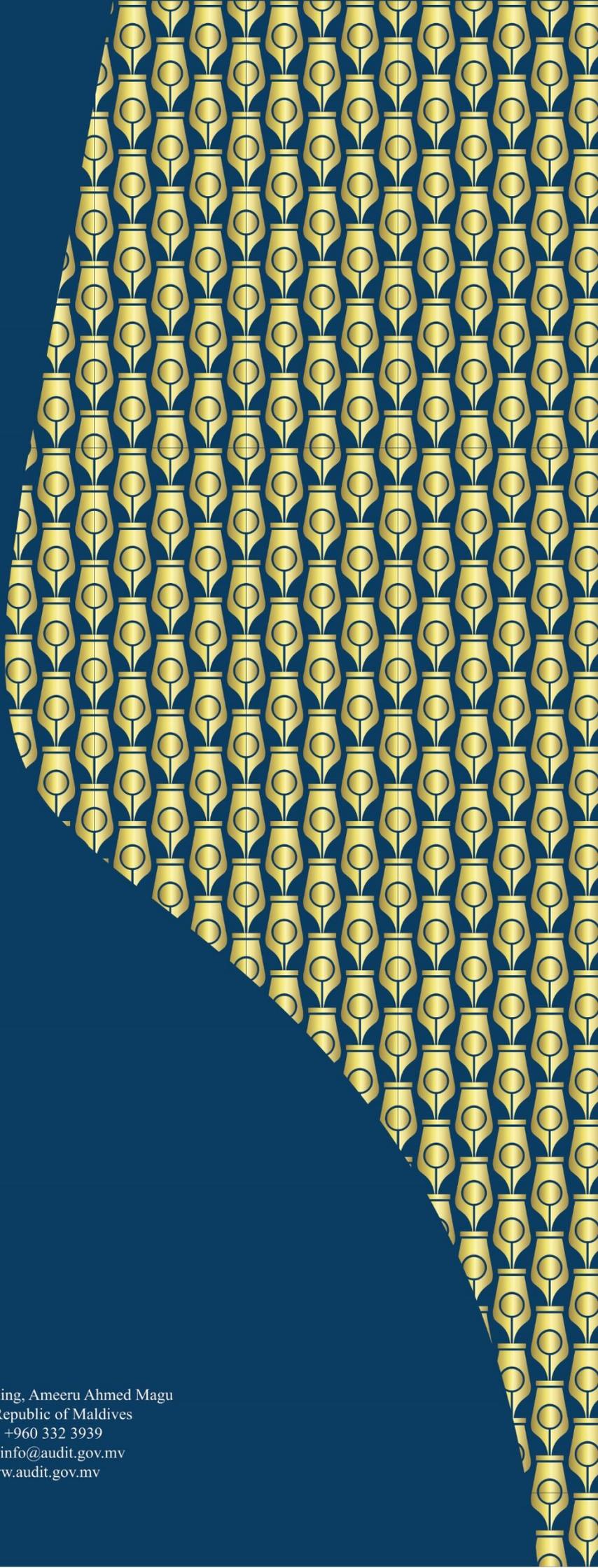
Hassan Ziyath

Auditor General



Appendix 1: Methodology

Method	Activity
File and document review	We reviewed key documents from 2012 to 2014 on the process and basis for decision made in achieving the Corporation's aims and objectives, economy, efficiency and effectiveness of sales and production and economy, efficiency and effectiveness of the project management. Documents examined were drawn from the Maldives Road Development Corporation, MRDC Addu Site Office and Addu City Council.
Interviews with key staff	Interviewed the key staff from MRDC, MRDC Addu Site office and Addu City Council.
Inspection of Assets	Physical inspection to verify the existence of assets used in the projects (MRDC Addu Site) and production department (Male') was performed.
Analytical Procedures	Comparisons were made between 2012, 2013 and 2014 Financial Statements and ratios (Profitability and Liquidity) were calculated to analyze the performance of the Corporation.
Conducted Survey	Survey was conducted to identify the Satisfaction level of the general public on the road development and maintenance. A survey was also conducted to identify customer's satisfaction level on the quality and time of the production and service of building bricks.



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